



Institutional cross-ownership and ESG decoupling

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Abstract

This study examines the relationship between institutional cross-ownership and ESG decoupling. Based on a dataset of 3,955 firm-year observations for S&P 500 firms for the period 2010–2022, we find a negatively significant association between institutional cross-ownership and ESG decoupling. Additional analyses on institutional cross-owner characteristics reveal that our findings are driven mainly by institutional cross-owners with long-term investment horizons. Besides, subsample analyses reveal that the negative impact manifests more in companies with lower board co-option, shorter CEO career horizon, and those that are non-controversial. Furthermore, we document that both the monitoring and financing advantages channels explain institutional cross-ownership's negative influence on ESG decoupling. The baseline results are robust to a battery of robustness checks and endogeneity tests. Collectively, this study provides insightful theoretical and policy implications for the field of institutional ownership and ESG.

Keywords Institutional cross-ownership · ESG decoupling · ESG disclosure · ESG performance

1 Introduction

Diverse stakeholders put increasing pressures, both direct and indirect, on companies of various sizes to act responsibly and surpass the financial and legal requirements to broader societal goals (Gull et al. 2023a). Thus, many companies have turned to disclosure of environmental, social, and governance (ESG) reports to inform stakeholders about ESG

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activities and keep up a socially responsible image (Zhang 2022; Elshandidy et al. 2025). Theoretically, ESG reports ought to provide fair and trustworthy information; in practice, though, there has been evidence of distortion, and managers frequently engage in decoupling practices (Gull et al. 2024b). *The gap between a company's ESG disclosure and its real ESG performance is referred to as ESG decoupling* (Eliwa et al. 2023). Extant literature suggests that gaining legitimacy, enhancing reputation, or even deceiving their stakeholders are the main motivations for firms to engage in this irresponsible behaviour (Zhang 2022).¹ ESG decoupling may have negative effects on firms, despite its apparent attraction as a way to acquire ESG-related legitimacy without additional costs. These adverse effects arise mainly from damage to a company's intangible resources, including impairments on organizational culture, reputation, and relationships with stakeholders (Bothello et al. 2023). Recent research reveals that ESG decoupling is adversely related to a firm's financial performance (He et al. 2023), labour investment efficiency (Di and Li 2023), and ability to access finance (García-Sánchez et al. 2021). Scholars unanimously conclude that ESG decoupling is harmful for organizations and must be alleviated (Gull et al. 2023c). To this end, a crucial question arises: What drives companies' engagement in ESG decoupling? A range of factors, either firm-level or institutional-level, has been investigated by recent literature (e.g., Aboud et al. 2024; Eliwa et al. 2023; García-Sánchez et al. 2022; Gull et al. 2023a, b, c, 2024b; Sauerwald and Su 2019; Shahab et al. 2022; Zhang 2022). In this study, we enrich this nascent corpus of literature by investigating institutional cross-ownership's role.

An increasing number of institutional investors have pledged to include ESG factors into their capital allocation process in order to meet the demand from clients for sustainable investments (Chen et al. 2020b). Also, they apply various tools, such as engagement, divestment, and monitoring, to improve the ESG performance of their portfolio firms. Thus, previous studies have widely examined a firm's institutional ownership-ESG's various aspects nexus (Benlemlih et al. 2023). Nonetheless, interactions among portfolio firms have been largely overlooked by past institutional ownership-ESG research (Cheng et al. 2022). The same large institutions are increasingly having partial ownership in competing companies (henceforth, institutional cross-ownership) (Park et al. 2019). For instance, between 1980 and 2014, the percentage of US public companies with an institutional blockholder that is also a blockholder in at least one of the company's same-industry peers has witnessed an increase from lower than 10% to nearly 60% (Ramalingegowda et al. 2021). The growing research suggests that compared to institutional investors that do not own rivals, institutional cross-owners are more incentivized and powerful to lessen competition between rivals in their portfolios (Azar et al. 2018), internalize governance externalities among peers (He and Huang 2017), and promote product market coordination among rivals (He et al. 2019) to maximize their portfolios' overall value. As a result, there has been an increased focus on comprehending how institutional cross-ownership affects organizations.

Representing standard corporate strategy (Hung 2025), institutional cross-ownership's role in ESG has been investigated. Nevertheless, the prior literature offers heterogeneous results and calls for more in-depth research. For instance, some studies provide evidence

¹ For example, Volkswagen (VW) promoted their Jetta TDI with a "Clean Diesel" label in response to growing stakeholder expectations for environmentally friendly and fuel-efficient vehicles. Nonetheless, VW was found guilty in 2015 of putting defeat devices in order to falsify emission test results. VW temporarily gave the impression of a green company by misaligning its ESG efforts; as a result, the Jetta TDI was awarded the prestigious Green Car of the Year award (Gull et al. 2023c).

that institutional cross-owners are more inclined to support their portfolio companies' ESG activities, thus resulting in positive spillover effects (DesJardine et al. 2023; Fu et al. 2022; Qiang et al. 2024), whereas other studies find that institutional cross-ownership is negatively associated with a firm's ESG performance (Cheng et al. 2022) and ESG disclosure (Choi et al. 2024). Moreover, no prior study—to our knowledge—has investigated institutional cross-ownership's role in ESG decoupling, in particular.

We posit that institutional cross-owners could mitigate ESG decoupling for the following reasons. First, unlike investors who blockhold the shares of only one company in an industry, institutional cross-owners of multiple same-industry companies benefit from economies of scale in acquiring and processing information, thus improving their ability to act as effective monitors (Raman et al. 2023). Second, cooperation and resource sharing between linked companies can be promoted by their institutional cross-owners, thereby enhancing their ESG investment capabilities (Cheng et al. 2022). Third, recent research argues that a company's corporate governance creates positive externalities on its industry peers (Chen et al. 2024). Therefore, if an action is taken by an institutional cross-owner against ESG decoupling in one company, then this investor can benefit from ESG transparency in the focal company and from positive externalities in the peer companies. By contrast, there's a chance that institutional cross-owners won't lessen ESG decoupling and might potentially make it worse. Institutional cross-owners may be less demanding of high-quality ESG reporting and may even desire less transparency in order to preserve their information advantage resulting from their superior information gathering and processing capabilities (Ramalingegowda et al. 2021). Further, some institutional investors prioritise short-term economic performance (Chen et al. 2020a) and disregard ESG investments with uncertain profit prospects (Jin et al. 2024).

Based on a dataset of 3,955 firm-year observations for S&P 500 firms for the period 2010–2022, we find a negatively significant association between institutional cross-ownership and ESG decoupling. Additional analyses on institutional cross-owner characteristics reveal that our findings are driven mainly by institutional cross-owners with long-term investment horizons. Besides, subsample analyses reveal that the negative impact manifests more in companies with lower board co-option, shorter CEO career horizon, and those that are non-controversial. Furthermore, we document that both the monitoring and financing advantages channels explain institutional cross-ownership's negative influence on ESG decoupling. The baseline results are robust to a battery of robustness checks and endogeneity tests.

This paper makes the following contributions. First, it enriches the literature on institutional ownership and ESG. Existing research has demonstrated how various types of investors influence a firm's ESG practices, but the results are inconsistent; some investors encourage firms to adopt socially responsible strategies, while others do not (DesJardine et al. 2023). We advance this stream of the literature by documenting that institutional cross-ownership—which is a related but distinct concept—negatively influences ESG decoupling. Second, it adds to the limited empirical evidence on antecedents of ESG decoupling. Previous studies in this area explore the role of internal corporate governance mechanisms (Gull et al. 2023a, c, 2024b), CEO characteristics (Gull et al. 2023b; Sauerwald and Su 2019; Shahab et al. 2022), institutional factors (Aboud et al., 2023; Eliwa et al. 2023), and external monitoring factors (Zhang 2022; García-Sánchez et al. 2022) in shaping ESG decoupling. Our paper enriches this emerging research by establishing that institutional cross-owners,

increasingly important market participants, constrain ESG decoupling. Third, it deepens our understanding of institutional cross-ownership's economic consequences. Extant studies largely focus on institutional cross-ownership's impact on corporate operations and shareholders (He and Huang 2017; Brooks et al. 2018; He et al. 2019; Ramalingegowda et al. 2021; Park et al. 2019; Peng et al. 2023; Cheng et al. 2024). More related to our study, there has been a thin but burgeoning literature examining institutional cross-ownership-ESG nexus, with contrasting results (Cheng et al. 2022; Choi et al. 2024; DesJardine et al. 2023; Qiang et al. 2024). We extend this literature by shedding light on a different ethical dilemma related to whether companies with higher institutional cross-ownership tend to engage less in the manipulative behaviour of decoupling their actual ESG performance from their ESG disclosure. To the best of our knowledge, this paper is the first to emphasize the curbing effect of institutional cross-ownership on ESG decoupling. Finally, on a practical level, we contribute to the debate pertaining to whether and how to restrict institutional cross-ownership. Based on evidence of institutional cross-ownership's anticompetitive effect, numerous proposals have been introduced to place restrictions on institutional cross-ownership (DesJardine et al. 2023). Nevertheless, before enforcing more restrictive policies, our research highlights the importance of considering institutional cross-ownership's economic implications overall.

We acknowledge that recent research has begun to examine the relationship between institutional ownership and ESG decoupling. For example, Cepeda et al. (2025) document that overall institutional ownership is negatively associated with ESG decoupling. However, institutional investors are not a homogeneous group, and their monitoring effectiveness may vary depending on their characteristics. In this study, we focus specifically on institutional cross-owners, a distinct type of institutional investors that simultaneously hold significant stakes in multiple firms within the same industry (Peng et al. 2023).

Moreover, Huang et al. (2026) focus on institutional cross-ownership and document a positive association between institutional cross-ownership and ESG decoupling in the Chinese context. Our study provides contrasting evidence from the U.S. context, where institutional cross-ownership is more prevalent and institutional investors play a dominant role in corporate governance (Ramalingegowda et al. 2021). In addition, regulatory scrutiny and investor protection are higher in the U.S. market. In contrast, China's capital market is characterized by weaker ESG awareness, less developed ESG reporting systems, and a higher proportion of retail investors (Du 2015; Yao et al. 2024).

Given these institutional differences, the role of institutional cross-owners may vary across countries. In addition, our study differs from Huang et al. (2026) by examining different firm-level and investor-level moderators and by identifying distinct underlying mechanisms linking institutional cross-ownership to ESG decoupling.

2 Literature review

2.1 ESG decoupling

The stakeholders have paid more attention to sustainable business practices in recent years due to their emergence as a global phenomenon (Shahab et al. 2022; Zhao et al. 2023). In response to the augmented interest of various stakeholders in firms' ESG activities, envi-

ronmental and social performance reports are frequently issued by firms to gain legitimacy and improve their reputation (Tata and Prasad 2015). While a firm's ESG performance is assumed to be truly and fairly represented by its ESG disclosure (Eliwa et al. 2023), it is suggested by anecdotal evidence that managers often fabricate social and environmental reports, hide noncompliance, and act in a symbolic manner (Gull et al. 2024b). Thus, there may be a discrepancy between the “walk”—what businesses really do—and the “talk”—what is reported in ESG reports (García-Sánchez et al. 2022). It is argued that the extensive investment and restructuring of a company's processes, procedures, structure, and even value needed for ESG policies' full implementation, as well as ESG reporting's nature of being largely voluntary and unregulated, open the door for ESG reports to be elaborated subjectively, leading some companies to opportunistically use ESG disclosure to misrepresent their real ESG performance, a behavior more commonly known as “ESG decoupling” (Bothello et al. 2023).

Such decoupled ESG disclosures are viewed by most of the extant literature as problematic. This is because the presence of this gap decreases ESG reports' integrity and reliability, undermines their credibility, thereby impairing the accountability of companies for their societal impact (García-Sánchez et al. 2022). Consequently, ESG decoupling can result in adverse economic, social, and environmental outcomes. For instance, Volkswagen was fined \$34.69 billion by the US Environmental Protection Agency (EPA) for using software on its vehicles to falsify data, thus helping evade emission tests (Gull et al. 2023c). Negative consequences for companies can also include low ESG ratings (Doh et al. 2010). By extension, the awareness of such deception by the public leads users to become skeptical, which may ultimately lead to a loss of legitimacy (García-Sánchez et al., 2022). Finally, empirical studies provide evidence that ESG decoupling leads to higher cost of capital, lower analyst forecast accuracy, and restricted access to finance (García-Sánchez et al., 2021). Thus, over the previous decade, numerous companies have faced criticism for their ESG practices due to this irresponsible behavior (Gull et al. 2023c).

Although decoupling, as a general identification, takes the form of greenwashing, sustainability information might be muddled through or underreported by firms, a practice known as ‘brownwashing’ (Eliwa et al. 2023). Brownwashing practices may cause less damage than greenwashing ones; however, empirical evidence finds that both forms of decoupling are equally harmful and adversely affect firm value (García-Sánchez et al. 2022). Thus, mechanisms to enhance ESG reports' credibility are highly needed. The majority of the existing studies focus on the consequences of ESG decoupling, whereas research investigating the determinants of ESG decoupling is still limited but growing. For instance, focusing on internal corporate governance mechanisms, Gull et al. (2023c) find that board gender diversity is negatively related to ESG decoupling. In addition, empirical studies provide evidence that a sustainability committee's existence and structure mitigate ESG decoupling (Gull et al. 2023a, 2024b). Given that ESG decoupling is chosen by management, managerial determinants of decoupling practices are explored by other studies, revealing that ESG decoupling increases with CEO power (Gull et al. 2023b; Shahab et al. 2022) and CEO overconfidence (Sauerwald and Su 2019). Institutional factors, either formal or informal, can also influence ESG decoupling. Aboud et al. (2023) find that mandatory corporate social responsibility (CSR) reporting decreases ESG decoupling. Eliwa et al. (2023) determine that ESG decoupling decreases with country religiosity level. Finally, investigating external monitoring factors, Zhang (2022) concludes that analyst coverage decreases ESG decou-

pling. Likewise, García-Sánchez et al. (2022) document that CSR assurance decreases ESG decoupling. Our study enriches this emerging area of literature by examining how ESG decoupling is affected by a special group of economic agents, institutional cross-owners.

2.2 Institutional cross-ownership

Holding shares by the same institutional investor in a number of same-industry companies has become increasingly common recently, which is referred to as “institutional cross-ownership” (Connelly et al. 2019). For instance, as of 2016, more than 50% of all listed companies in the U.S. were blockheld (more than 5% ownership) by BlackRock, the largest asset management company, and its assets under management reached \$4.5 trillion (Ramalingegowda et al. 2021). Institutional cross-ownership obscures company boundaries, influences co-owned companies’ objectives, and enables strategic coordination among co-owned companies (Cheng et al. 2024). Unlike other institutional investors, institutional cross-owners seek to maximize their investment portfolios’ value rather than only their holdings’ value (Ding 2023). As having multiple large holdings in same-industry companies by institutional investors rises in importance, its economic consequences are investigated by a burgeoning corpus of research (Zhang et al. 2024). One line of research suggests a synergetic governance view of institutional cross-owners. By blockholding multiple same-industry firms, institutional investors acquire rich information and monitoring experience through information transmission and experience accumulation, thus improving the monitoring capabilities of institutional cross-owners (Zhang et al. 2024). Additionally, institutional cross-ownership facilitates economies of scale. For the same marginal cost of monitoring and enhancing one firm’s corporate governance, marginal benefits are reaped by institutional cross-owners not just from that firm, but also from its industry peers in the portfolio of institutional cross-owners (He et al. 2019). Moreover, an integration effect is created by institutional cross-ownership. Institutional cross-owners who aim to maximize the value of their portfolios are motivated to integrate resources and information in their portfolios (Chen et al. 2024). Empirical finance research has supported this view by demonstrating the beneficial impacts of institutional cross-ownership on a range of corporate policies, including facilitating merger-and-acquisition decisions (Brooks et al. 2018), improving CSR (DesJardine et al. 2023), and enhancing corporate governance (He et al. 2019). Further, institutional cross-ownership constrains earnings management (Ramalingegowda et al. 2021), improves analyst forecast accuracy (Cheng et al. 2024), and enhances accounting comparability (Peng et al. 2023) as documented by accounting literature.

Another stream of research argues that an anti-competitive or collusion effect is created by institutional cross-ownership. One company’s competitive behaviors may harm other same-industry companies, lowering the industry portfolio’s total value (Ramalingegowda et al. 2021). Therefore, motivated by the goal of maximizing portfolio value, institutional cross-ownership can lessen the incentives for companies to engage in fierce competition with one another (Ding 2023). Consistent with this notion, in their representative study of institutional cross-ownership’s effects, the US airline industry is considered by Azar et al. (2018) as a research sample, finding that incentives to compete are induced to decrease by institutional cross-ownership, which leads to increased airline prices and decreased firm outputs. Similar evidence is provided by Azar et al. (2022) from the banking industry, who show that institutional cross-ownership increases maintenance fees and waiving fees’

thresholds while decreasing interest rates on deposit accounts. Ant'ón et al. (2023) propose that institutional cross-ownership enforces anticompetitive behavior through the channel of executive compensation contracts, as evidenced by less relative performance evaluation and lower executive pay-for-performance. Related to the potential change in competition among rival companies due to institutional cross-ownership, adverse impacts are documented for institutional cross-owners on ESG performance (Cheng et al. 2022) and corporate advertising expenditure (Lu et al. 2022).

3 Theoretical framework

Stakeholder-agency theory suggests that managers' interests and goals often differ from those of stakeholders, thus leading to principal-agent conflicts (Jensen and Meckling 1976). Pressure is exercised by various groups of stakeholders on companies to enhance their societal and environmental impact (Eliwa et al. 2023).

However, in reality, managers' behaviors don't necessarily align with the expectations of their stakeholders (Ali et al. 2023; Gull et al. 2023a). Managers under financial performance pressures are more inclined to postpone or avoid investing in costly projects with uncertain returns. Instead, they tend to prioritize hitting financial targets during their tenure by pursuing short-term profits (Jin et al. 2024). Although ESG activities have recognized benefits, it is apparent that they also entail potential risks and high costs. Hence, seeking endorsement from external stakeholders, corporate managers may behave deceptively to decouple ESG performance and disclosure (Bothello et al. 2023). Previous research on ESG decoupling reveals that companies are actively engaged in this irresponsible behaviour, which can impair shareholders' value and hurt companies' legitimacy (Garcia-Sanchez et al., 2021).

Therefore, this phenomenon necessitates the development of tools for monitoring managerial interests and aligning them with those of other stakeholders on ESG issues. Given institutional cross-ownership's unique features, an interesting open question is raised about how this kind of ownership affects ESG decoupling. From the perspective of stakeholder-agency theory, institutional investors' monitoring can lessen managerial entrenchment and, as a result, the likelihood that management will put its own objectives ahead of the interests of stakeholders (Aibar-Guzmán et al. 2023). In this regard, institutional cross-owners have stronger motivations, more industry knowledge, and a better ability to monitor and influence the corporate decisions of portfolio companies than institutional investors who invest in one company or in several companies across various industries (Peng et al. 2023). This is because when multiple companies within the same industry are blockheld by a large shareholder, this shareholder can gain industry expertise because of having economies of scale in acquiring industry-specific information (Ramalingegowda et al. 2021). Hence, this expertise allows the institutional cross-owner to better detect and discipline ESG decoupling. Further, institutional cross-owners should be more incentivized to constrain ESG decoupling because such behavior can generate negative spillover effects across their portfolio firms. When firms engage in misleading ESG disclosure, it not only harms peer firms' reputations and distorts industry norms but also attracts stricter external monitoring from regulators, investors, and other stakeholders. These repercussions increase scrutiny and potential risks for all firms held by common owners (DesJardine et al. 2023; Lel et al. 2023). To avoid such industry-wide negative externalities and intensified oversight, common owners have

strong incentives to monitor managers proactively and use their governance influence to curb ESG decoupling within their portfolios. Although expecting substantive responses rather than symbolic actions is reasonable when institutional investors emphasize the necessity of changes to managers, engaging in ESG policies incurs potentially significant costs (Wu et al. 2023). Therefore, a crucial issue is how institutional investors draw managers' attention to ESG issues and persuade them to make sustainable investments (Jin et al. 2024). This objective can be accomplished by incorporating an attention-based view within the framework of stakeholder-agency theory. The attention-based view suggests that managerial attention focus is not invariant. A set of internal and external stimuli determines which issues managers devote their attention to (Barnett 2008). Since institutional cross-owners are a more informed and influential subset of institutional investors (Peng et al. 2023), their ESG activism is likely to change the short-termism of managers and direct their attention towards sustainable practices, thereby relieving agency conflicts. In addition, given that industry collaboration is vital for sustainable investments (Jin et al. 2024), institutional cross-owners can align the attention among their portfolio companies to enhance industrial chain support for these investments.

4 Hypothesis development

Institutional cross-owners are more likely to gain from advances in a company's CSR than non-institutional cross-owners (DesJardine et al. 2023). It is argued by the corporate governance externality literature that there are externalities for one company's corporate governance on the governance practices of other companies within the same industry (Chen et al. 2023). This occurs because companies and executives are affected by peer pressure (Shen and Zhang 2018). For instance, Gao and Zhang (2019) find that positive externalities are generated for peer firms when a firm invests in internal controls, suggesting that enhanced internal controls not only diminish accounting manipulation of a firm's managers but also, as a result, managers at peer firms are relieved of peer pressure to manipulate. Since the positive governance externalities can be beneficial to institutional cross-owners, they should be more incentivized to take actions to constrain the irresponsible activities of a firm (Chen et al. 2023), thereby benefiting from both a firm's improved CSR and peer firms' positive externalities.

Meanwhile, other studies indicate that institutional cross-owners can obtain an information advantage and develop economies of scale, enabling them to effectively monitor and govern firms (Xu et al. 2023). Specifically, institutional cross-owners can access corporate management and boards of directors more easily, thereby allowing them to have higher information accessibility and attain more internal information (Chen et al. 2023). In addition, due to the economic similarities among same-industry companies, information and expertise gained by institutional cross-owners from monitoring one portfolio company can enhance their capability of analyzing and monitoring peer companies they blockhold (Ramalingegowda et al. 2021). Institutional cross-owners' information acquisition and processing costs can be reduced by this economy of scale effect, promoting their efficiency in monitoring the financial reporting of portfolio companies (Ye and Yu 2024). Support-

ing these arguments, He et al. (2019) provide evidence that institutional cross-ownership increases the likelihood of an institution voting against management on shareholder-sponsored governance proposals, as well as the probability of management losing these votes. Consistent with He et al. (2019), empirical studies reveal that institutional cross-ownership enhances accounting comparability (Peng et al. 2023), increases the timeliness of goodwill impairment (Ye and Yu 2024), mitigates earnings management (Ramalingegowda et al. 2021), constrains related party transactions (Zhang et al. 2024), and curbs opportunistic insider trading (Chen et al. 2023). In short, these studies suggest that institutional cross-owners have incentives to influence portfolio companies and that companies react to the monitoring of institutional cross-owners. Thus, we argue that institutional cross-owners' effect could extend to ESG decoupling, disciplining managers from engaging in this opportunistic behaviour.

Moreover, institutional cross-ownership may augment ESG performance by promoting industry collaboration between companies held by institutional cross-owners (Cheng et al. 2022). Institutional cross-owners can serve as a conduit for information sharing among portfolio companies, providing them with a wealth of diverse and rich information as well as encouraging strategic collaboration between them (Ding 2023). Such cooperation on ESG issues promotes private information sharing among linked firms due to decreased proprietary cost of disclosure, thus reducing the information uncertainty faced while undertaking sustainable investments. Further, it facilitates access to key resources, reduces financing costs, enhances fundraising capabilities, and alleviates financing constraints during ESG activities (Zhou and Niu 2024). Conversely, individual actions may be costly and result in the free-rider problem (Cheng et al. 2022). Given that continuous knowledge acquisition and abundant resource supply are the fundamental guarantees for ESG investment, institutional cross-owners may contribute to the leap in the ESG investment capability of companies through collaborative practices (Ding 2023), thus decreasing ESG decoupling practices.

The reasoning above is not free from tension. Alternatively, institutional cross-owners might prefer more engaging in ESG decoupling by their portfolio companies if more decoupling increases the informational advantage of institutional cross-owners over other investors. This argument is supported by empirical studies indicating that trading on valuable private information is profitable to institutional investors with large positions in a company (Peng et al. 2023). Large holdings allow institutions to access corporate management and boards, along with their private information (Ramalingegowda et al. 2021). Further, because institutional cross-owners simultaneously have multiple same-industry blockholdings, they are arguably more adept at discerning valuable information from noise, a task that may be more challenging and costly for other shareholders (Peng et al. 2023). Thus, the increased private information could reduce the need for high-quality ESG reporting by institutional cross-owners (Ramalingegowda et al. 2021). Moreover, some institutional investors prioritise short-term economic performance (Chen et al. 2020a), and disregard ESG investments with uncertain profit prospects (Jin et al. 2024).

H1 *Institutional cross-ownership is linked to ESG decoupling*

5 Research design

5.1 Data and sample

Our initial sample comprises S&P 500 companies from 2010 to 2022.² Due to their significant market capitalization, these firms experience considerable pressure from stakeholders and society to boost their social and environmental impact (Bui et al. 2020). We compute ESG decoupling using data from Refinitiv EIKON, Bloomberg, and Compustat. To construct institutional cross-ownership variable, we obtain institutional holdings data from Thompson Reuters (13 F). Data on control variables are retrieved from Compustat, Bloomberg, and Refinitiv EIKON. After excluding observations lacking sufficient data to calculate key or control variables, our final sample consists of 3,955 firm-year observations for the period 2010–2022. We winsorize all continuous variables at the 1st and 99th percentiles to avoid the impact of outliers. Appendix A presents sample distribution.

5.2 Variable construction

5.2.1 ESG decoupling

Our proxy of decoupling captures the misalignment between a firm's ESG disclosure and its ESG performance. Thus, ESG decoupling (*GAP*) is operationalized as the gap between Bloomberg's current ESG disclosure score and Refinitiv EIKON's 1-year lagged ESG performance score deflated by the logged total assets (Gull et al. 2023c).³ A positive value of *GAP* indicates that ESG disclosure exceeds ESG performance (overreporting), whereas a negative value of *GAP* indicates that ESG disclosure is lower than ESG performance (underreporting).

The Bloomberg ESG Disclosure Score measures the extent to which firms publicly disclose environmental, social, and governance (ESG) information. The score is calculated based on more than 120 ESG-related indicators across environmental, social, and governance dimensions, covering aspects such as greenhouse gas emissions, energy consumption, workforce diversity, human rights policies, executive compensation, and board structure. Bloomberg collects this information from publicly available sources including annual reports, regulatory filings, proxy statements, sustainability reports, and corporate websites. The score ranges from 0 to 100, with higher scores indicating higher ESG disclosure.⁴

In contrast, Refinitiv EIKON's ESG score evaluates firms' actual ESG practices and performance rather than their disclosure efforts. Refinitiv collects more than 400 firm-level ESG indicators, from which 178 comparable metrics are selected and grouped into 10 categories that are subsequently aggregated into three ESG pillars—environmental, social, and governance—to produce the final ESG score. The score therefore reflects a firm's ESG

² Our sample starts in 2010 because there is some anecdotal and empirical evidence that companies are taking CSR more seriously and are working to enhance their CSR records to in order to reduce scrutiny and skepticism after the financial crisis (Cornett et al. 2016).

³ Each ESG score (Bloomberg ESG disclosure score and Refinitiv EIKON ESG performance score) was standardized individually prior to computing the decoupling measure, to account for potential differences in their distributions.

⁴ Details on the Bloomberg ESG Disclosure score and its construction are available at: <https://www.esg-advising.com/insights/bloombergs-esg-disclosure-score>.

performance, commitment, and effectiveness based on publicly reported information. The score ranges from 0 to 100, with higher scores indicating stronger ESG performance.⁵

5.2.2 Institutional cross-ownership

In our specification, institutional cross-ownership exists when an institutional investor holds no less than 5% in at least two same-industry companies.⁶ Our proxy for institutional cross-ownership, *CROSS*, is calculated as the total number of a company's institutional cross-owners (Cheng et al. 2024).⁶

5.2.3 Control variables

Following previous literature (Eliwa et al. 2023; Gull et al. 2023a, c), we include several firm characteristics that may have an effect on ESG decoupling. Particularly, we control for firm size (*SIZE*), market-to-book ratio (*MTB*), return on assets (*ROA*), capital expenditure ratio (*CAPEX*), leverage (*LEV*), research and development (*R&D*), and capital intensity (*CI*). Additionally, a set of corporate governance variables is controlled for, including board size (*BS*), board independence (*BIND*), board gender diversity (*BGD*), board meetings (*BMEET*), CEO duality (*DUAL*), CSR committee (*CSR COM*), and institutional ownership (*INST*). Appendix B presents detailed variable definitions.

5.2.4 Model

We evaluate the following firm fixed effects regression model to investigate whether institutional cross-ownership influences ESG decoupling:

$$GAP_{i,t} = \beta_0 + \beta_1 CROSS_{i,t-1} + Controls_{i,t-1} + Firm\ FE + Year\ FE + \varepsilon_{i,t} \quad (1)$$

where *i* indexes firm and *t* indexes year. *GAP* is our proxy for ESG decoupling. The independent variable, *CROSS*, is the measure of institutional cross-ownership. *Controls* is a vector of control variables, as detailed above. To mitigate reverse causality concerns, we measure both the independent and control variables in year *t* - 1. Finally, we include year and firm fixed effects to control for any unobservable time-varying and firm-specific factors. We cluster standard errors at the firm level.

6 Empirical results

6.1 Descriptive statistics

Table 1 shows the descriptive statistics of the primary variables used in this study. *GAP* has an average value of -0.549 and a standard deviation of 0.063. The mean of *CROSS* is 1.800, which is consistent with Cheng et al. (2024) and suggests that our observations have 1.800

⁵ Details on the Refinitiv ESG score methodology are available at: <https://www.esg-advising.com/insights/refinitiv-esg-score>.

⁶ GICS industry classification is used to calculate our proxy of institutional cross-ownership.

Table 1 Descriptive statistics

Variables	Obs	Mean	Std. Dev.	Min	Max
<i>GAP</i>	3,955	-0.549	0.063	-0.701	-0.388
<i>CROSS</i>	3,955	1.800	1.345	0	5
<i>LEV</i>	3,955	0.258	0.167	0	0.811
<i>ROA</i>	3,955	0.062	0.066	-0.149	0.268
<i>MTB</i>	3,955	4.154	11.462	-53.798	67.352
<i>R&D</i>	3,955	0.020	0.037	0	0.184
<i>SIZE</i>	3,955	10.006	1.301	7.527	13.745
<i>CI</i>	3,955	2.960	4.162	0.296	24.228
<i>CAPEX</i>	3,955	0.036	0.038	0	0.199
<i>BS</i>	3,955	11.063	2.029	6	17
<i>BMEET</i>	3,955	8.106	3.298	4	21
<i>BIND</i>	3,955	0.853	0.080	0.375	1
<i>DUAL</i>	3,955	0.512	0.500	0	1
<i>BGD</i>	3,955	0.222	0.098	0	0.500
<i>CSR COM</i>	3,955	0.434	0.496	0	1
<i>INST</i>	3,955	0.830	0.128	0.479	0.990

This table reports the descriptive statistics for the variables used in our main regression. Appendix B presents detailed variable definitions. All continuous variables are winsorized at 1%

institutional cross-owners on average. The mean firm-year in our sample has *LEV* of 0.258, *ROA* of 0.062, *MTB* of 4.154, *R&D* of 0.020, *SIZE* of 10.006, *CI* of 2.960, and *CAPEX* of 0.036. Referring to corporate governance controls, the average *BS*, *BMEET*, and *BIND* are about 11.063, 8.106, and 0.853, respectively. 51.2% of CEOs also chair the board. The mean proportion of women on board is 22.2%. On average, 43.4% of sample firms have a sustainability committee. The mean firm-year in our sample has *INST* of 0.830. Overall, our study variables' summary statistics fall within a reasonable range and largely align with prior research.

6.2 Correlation matrix

Table 2 reports the correlation matrix for the variables in our baseline regression sample. The correlation coefficient between *GAP* and *CROSS* is negative and significant, which suggests that companies with higher institutional cross-ownership engage less in ESG decoupling. This result lends preliminary support for the synergetic governance view of institutional cross-ownership. As Table 2 shows, the highest correlation coefficient of

0.413 between *CI* and *ROA* is below the threshold of 0.80, which may indicate multicollinearity. Also, the mean VIF for all regression variables is well below the empirical threshold of 10. Thus, there is no serious multicollinearity problem among the variables.

6.3 Baseline results

Table 3 reports the baseline results regarding the impact of institutional cross-ownership on ESG decoupling. The results are presented without control variables in Column (1) and with all control variables in Column (2). Both coefficients of *CROSS* are negative and significant, which indicates that institutional cross-ownership is negatively linked to ESG decoupling. Overall, our results are aligned with the premise of the agency-stakeholder theory and suggest that institutional cross-owners are inclined to effectively oversee ESG-related matters and assist firms in aligning their ESG performance with their ESG disclosures. Institutional

Table 2 Correlation matrix

Variables	GAP	CROSS	LEV	ROA	MTB	R&D	SIZE	CI	CAPEX	BS	BMEET	BIND	DUAL	BGD	CSR COM	INST
<i>GAP</i>	1.000															
<i>CROSS</i>	-0.037	1.000														
<i>LEV</i>	0.112	0.026	1.000													
<i>ROA</i>	-0.307	-0.112	-0.159	1.000												
<i>MTB</i>	-0.053	-0.003	-0.055	0.163	1.000											
<i>R&D</i>	-0.160	0.148	-0.238	0.225	0.129	1.000										
<i>SIZE</i>	0.688	0.120	0.029	0.197	0.138	0.159	1.000									
<i>CI</i>	0.337	0.307	0.148	-0.413	-0.097	-0.102	0.073	1.000								
<i>CAPEX</i>	0.031	0.089	-0.007	-0.089	-0.052	-0.209	-0.072	0.174	1.000							
<i>BS</i>	0.441	-0.018	0.158	-0.143	0.003	-0.164	0.293	0.095	0.004	1.000						
<i>BMEET</i>	0.198	0.107	0.083	-0.206	-0.044	-0.018	0.012	0.237	0.022	0.108	1.000					
<i>BIND</i>	0.238	0.065	0.137	-0.079	0.003	0.018	0.151	0.088	-0.032	0.168	0.143	1.000				
<i>DUAL</i>	0.151	-0.008	-0.026	-0.041	-0.029	-0.067	0.113	0.000	0.040	0.058	-0.038	0.257	1.000			
<i>BGD</i>	0.218	0.090	0.165	0.021	0.087	-0.009	0.295	0.011	-0.117	0.107	0.082	0.203	0.017	1.000		
<i>CSR COM</i>	0.354	0.053	0.140	-0.091	-0.011	-0.109	0.276	0.174	0.057	0.223	0.126	0.193	0.026	0.308	1.000	
<i>INST</i>	-0.446	0.086	0.074	0.153	0.119	0.113	-0.408	0.033	-0.080	0.283	0.018	0.198	0.118	0.333	0.300	1.000

This table reports correlation analysis' results for all main regression variables. Significance at 5% level of lower is indicated by bold

Table 3 Baseline regression results

Variables	(1)	(2)
	GAP	GAP
<i>CROSS</i>	-0.269*** (-3.77)	-0.167*** (-3.14)
<i>LEV</i>		1.228* (1.80)
<i>ROA</i>		-3.022** (-2.34)
<i>MTB</i>		-0.002 (-0.84)
<i>R&D</i>		-2.548*** (-3.52)
<i>SIZE</i>		2.109*** (13.13)
<i>CI</i>		0.151* (1.95)
<i>CAPEX</i>		-1.300 (-0.46)
<i>BS</i>		0.116*** (3.88)
<i>BMEET</i>		0.013 (1.04)
<i>BIND</i>		-0.0002 (-0.02)
<i>DUAL</i>		-0.060 (-0.56)
<i>BGD</i>		0.005 (0.69)
<i>CSR COM</i>		0.242* (1.86)
<i>INST</i>		-0.003 (-0.43)
<i>Constant</i>	-55.721*** (-27.31)	-76.924*** (-40.73)
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	3,955	3,955
<i>Within R²</i>	0.348	0.539

***, **, and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

cross-owners of multiple same-industry companies have advantages with regard to private information, industry experience, and management knowledge, thus improving their ability to act as effective monitors (Ramalingewoda et al. 2021). Further, institutional cross-owners have the capability of coordinating companies in an industry, thus enhancing their ESG investment capability (Cheng et al. 2022). Moreover, recent research demonstrates that a firm's corporate governance not only decreases its own managers' opportunism but also alleviates pressure to manipulate for managers at same-industry firms (Gao and Zhang 2019). Therefore, institutional cross-owners are more willing to devote resources and effort to monitoring, and they reap more benefits than other investors.

Taken together, monitoring by institutional cross-owners can deter managers from opportunistically faking ESG reporting. Our findings are consistent with previous studies about the effect of institutional cross-owners in minimizing opportunistic behaviour and protecting stakeholders’ interests (i.e., Gao et al. 2024; Ramalingegowda et al. 2021; Ye and Yu 2024). The results also complement the findings of DesJardine et al. (2023) and Qiang et al. (2024) that institutional cross-ownership is positively linked to ESG performance. Conversely, our findings contradict the results of other studies documenting that institutional cross-ownership is negatively associated with a firm’s ESG performance (Cheng et al. 2022) and ESG disclosure (Choi et al. 2024).

7 Robustness checks and endogeneity tests

7.1 Robustness checks

7.1.1 Alternative measure for institutional cross-ownership

The number of institutional cross-owners that the company has in a given year (*CROSS*) is used as a proxy for institutional cross-ownership in our baseline analysis, and we find that *CROSS* significantly decreases ESG decoupling. Prior studies suggest that institutional cross-ownership intensity is captured not only by the number of institutional cross-owners but also by institutional cross-ownership concentration (Khoo et al. 2024; Yao et al. 2024). Thus, we use the percentage of shares owned by institutional cross-owners (*TOTAL_CROSS*) as an alternative measure for institutional cross-ownership. Table 4 shows that when alternative measure of institutional cross-ownership is used, the correlation between institutional cross-ownership and ESG decoupling remains significantly negative, consistent with the main findings.

7.1.2 Alternative industry classifications

We investigate the robustness of our results to alternative industry classifications. In particular, we construct institutional cross-ownership measure (*CROSS*) using NAICS and SIC industry classifications and re-estimate our main regression. Table 5 shows that *CROSS* continues to be negative and significant as reported in Table 3.

Table 4 Alternative measure for institutional cross-ownership

Variables	GAP
<i>TOTAL_CROSS</i>	-0.021*** (-3.09)
<i>Firm Controls</i>	Yes
<i>Fixed effects</i>	Firm, Year
<i>Obs.</i>	3,955
<i>Within R²</i>	0.538

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

Table 5 Alternative industry classifications

Variables	SIC (1)	NAICS (2)
	GAP	GAP
<i>CROSS</i>	-0.125** (-2.26)	-0.112* (-1.95)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	3,955	3,955
<i>Within R²</i>	0.536	0.535

, **, and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

7.1.3 Excluding the financial sector

As financial firms have unique characteristics, we exclude the financial sector and rerun the baseline regression. After excluding financial sector's observations, Table 6 supports our main findings in Table 3 that institutional cross-ownership reduces ESG decoupling.

7.2 Endogeneity tests

7.2.1 Propensity score matching (PSM)

To mitigate the impact of different firm characteristics between high-institutional cross-ownership firms and low-institutional cross-ownership firms on the results, we use the

propensity score matching (PSM) method, which has been adopted in several studies (Khalifa et al. 2024; Liu et al. 2024; Yao et al. 2024). We first create a dummy variable based on the annual median value of institutional cross-ownership (*CROSS_DUM*). Specifically, we calculate our continuous measure of institutional cross-ownership (*CROSS*) as the total number of a firm's institutional cross-owners. For each year, we compute the sample median of *CROSS* and define *CROSS_DUM* as 1 if a firm's *CROSS* exceeds the annual median and 0 otherwise. This classification distinguishes firms with high versus low institutional cross-ownership within each year. Subsequently, we run a logit model that regresses *CROSS_DUM* on all control variables in our baseline model, as well as industry and year indicators, to predict the propensity scores. Using these propensity scores, we match each observation where *CROSS_DUM*=1 to a unique firm-year observation where *CROSS_DUM*=0 using the nearest neighbour method based on a caliper distance of 0.01. Finally, we re-estimate our baseline regression using the matched sample and report findings in Column 5 of Table 7. The coefficient on *CROSS* is significantly negative, thus

Table 6 Excluding the financial sector

Variables	GAP
<i>CROSS</i>	-0.168*** (-3.01)
<i>Firm Controls</i>	Yes
<i>Fixed effects</i>	Firm, Year
<i>Obs.</i>	3420
<i>Within R²</i>	0.538

, **, and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

confirming our main results that institutional cross-ownership lessens the level of ESG decoupling.

7.2.2 Two-stage least squares approach (2SLS)

To further mitigate endogeneity problems caused by reverse causality, 2SLS approach is adopted, following Chen et al. (2023). The main challenge in using 2SLS is the identification of an external instrumental variable that is likely to influence institutional cross-ownership but should not be associated with ESG decoupling. Following Khoo et al. (2024), we adopt the county-year median of institutional cross-ownership (*COUNTY_CROSS*) as our instrument for institutional cross-ownership. Specifically, for each county and year, we compute the median number of institutional cross-owners across all firms headquartered in that county. The variable *COUNTY_CROSS* therefore captures the local intensity of institutional cross-ownership in a given year, serving as an external instrument for firm-level institutional cross-ownership (*CROSS*). We report the first-stage regression in Column 1 of Table 7. As expected, the coefficient on *COUNTY_CROSS* is positive and significant at the 1% level. In addition, F-statistic of the instrument is 91.41, more than the recommended value of 10, suggesting that our instrument is not weak. The second-stage results, which are presented in Column 2, corroborate our main findings by showing that institutional cross-ownership is likely to reduce ESG decoupling. This also indicates that our baseline results are not unduly affected by omitted variable bias.

Table 7 2SLS, Heckman two-stage, and PSM

Variables	2SLS		Heckman two-stage		PSM
	(1)	(2)	(3)	(4)	(5)
	CROSS	GAP	CROSS_ DUM	GAP	GAP
<i>CROSS</i>		-0.183*** (-3.93)		-0.145** (-2.47)	-0.285*** (-3.11)
<i>COUNTY_CROSS</i>	0.817*** (41.08)		1.017*** (11.76)		
<i>IMR</i>				0.124* (1.85)	
<i>Firm Controls</i>	Yes	Yes	Yes	Yes	Yes
<i>Year FE</i>	Yes	Yes	Yes	Yes	Yes
<i>Firm FE</i>	Yes	Yes	No	Yes	Yes
<i>Industry FE</i>	No	No	Yes	No	No
<i>F-statistics (instrument)</i>	91.41				
<i>Obs.</i>	3,955	3,955	3,188	3,188	3,854
<i>Within R²</i>	0.511	0.539		0.524	0.54

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

7.2.3 Heckman two-stage model

There is an additional concern regarding self-selection caused by unobserved correlated variables. Following Yao et al. (2024), the Heckman two-stage procedure is employed to address this issue. We first create a dummy variable based on the annual median value of institutional cross-ownership (*CROSS_DUM*). In the first stage, we run a logit regression of *CROSS_DUM* on all control variables in our main model, as well as industry and year indicators. Further, the county-year median of institutional cross-ownership (*COUNTY_CROSS*) is used as an exclusion restriction instrument in this stage. We obtain the inverse Mills ratio (*IMR*) from this stage, which is then used in the second stage as an additional control variable to re-estimate the association between institutional cross-ownership and ESG decoupling. The results of the first-step regression are shown in Column 3 of Table 7. The coefficient on *COUNTY_CROSS* is positive and significant at the 1% level. In the second step, presented in Column 4 of Table 7, the coefficient of *CROSS* is still significantly negative ($\beta = -0.145, p < 0.05$), which indicates that the findings remain robust and do not change after controlling for self-selection bias.

7.2.4 Additional controls

In the past decade, the chief executive officer (CEO) emerged as an essential factor in determining a firm's CSR decision (Wang and Elnahas 2025). Drawing on upper echelons theory, empirical studies provide evidence that ESG performance is influenced by CEO characteristics such as duality, education, ideology, ethical values, tenure, power, gender, compensation, confidence, and narcissism (Bhaskar et al. 2023). Thus, we control for CEO gender (*CEO_GENDER*) and ESG-based compensation (*ESG_PAY*). Moreover, although ownership type-ESG nexus has almost exclusively been investigated for institutional owners, empirical studies provide evidence that other ownership types (i.e., insider ownership) are significantly associated with ESG performance and disclosure (Ali et al., 2022; Ongsakul et al. 2021; Nguyen et al. 2024), thus we control for insider ownership (*INSIDER*). Further, we add institutional non-cross ownership (*NON_CROSS*) to our baseline regression to ensure that institutional cross-ownership has an incremental effect after controlling for other types of institutional holdings. Finally, To account for the potential persistence of ESG decoupling over time, we include the lagged value of ESG decoupling (*LAG_GAP*) as a control variable in our regression model. The results shown in Table 8 hold similar to the main results.

7.2.5 Industry fixed effects

The presence of time-invariant industrial characteristics may bias the observed relation between *CROSS* and *GAP*. To address this issue, we control for industry fixed effects and re-estimate the baseline regression model. Table 9 shows that institutional cross-ownership is still significantly negatively related to ESG decoupling. Therefore, we conclude that our main findings on the negative link between *CROSS* and *GAP* are not driven by time-invariant industrial characteristics.

Table 8 Additional controls

Variables	GAP
<i>CROSS</i>	-0.045* (-1.65)
<i>LAG_GAP</i>	0.756*** (38.83)
<i>CEO_GENDER</i>	0.162 (1.17)
<i>ESG_PAY</i>	-0.052 (-0.94)
<i>INSIDER</i>	-0.003 (-0.03)
<i>NON_CROSS</i>	0.004 (1.23)
<i>Firm Controls</i>	Yes
<i>Fixed effects</i>	Firm, Year
<i>Obs.</i>	3,831
<i>Within R²</i>	0.782

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

Table 9 Industry fixed effects

Variables	GAP
<i>CROSS</i>	-0.167*** (-3.12)
<i>Firm Controls</i>	Yes
<i>Fixed effects</i>	Firm, Year, Industry
<i>Obs.</i>	3,915
<i>Within R²</i>	0.307

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

8 Subsample, additional, and channel analyses

8.1 Subsample analyses

8.1.1 The role of industry nature

Social taboos, moral debates, and political pressures are usually characterising controversial industry sectors. These industry sectors include alcohol, tobacco, and gambling as sinful industry sectors, as well as weapons, cement, nuclear, biotech and oil as industry sectors with emerging environmental, social, or ethical concerns (Cai et al. 2012). Firms operating in these industries are under intense stakeholder pressure and social scrutiny to improve their ESG practices. This may thus discourage them from engaging in ESG decoupling because of being highly exposed to reputation and legitimacy risks (Aboud et al. 2024). We examine whether the association between institutional cross-ownership and ESG decoupling differs between controversial and non-controversial industry sectors. We identify a controversial firm, *CONTRO*, as a dummy variable that equals one for alcohol firms (SIC codes 2100–2199), tobacco firms (SIC codes 2080–2085), weapon firms (SIC codes 3760–3769,

3795, 3480–3489), oil firms (SIC codes 1300, 1310–1339, 1370–1382, 1389, 2900–2912, 2990–2999), biotech firms (SIC codes 2833–2836), cement firms (SIC codes 3240–3241), and gambling firms, those with NAICS codes in {7132, 71312, 713120, 71329, 713290, 72112, 721120}, and zero otherwise (Wang et al. 2024). Then, the sample is split into a subgroup with controversial firms (*CONTRO*=1) and a subgroup with non-controversial firms (*CONTRO*=0). The influence of institutional cross-ownership on decoupling is stronger in the subgroup of non-controversial firms, as presented in Panel A of Table 10.

8.1.2 Board co-option

A crucial role is played by a board of directors in providing executives with decision-making strategies, thus board of directors' role related to ESG performance is paid attention by many research scholars and practitioners (Maneenop et al. 2024). Board co-option, a newly constructed attribute of board composition, defined as directors joined the board during the CEO's term, has recently gained scholarly interest for its potential impact on corporate outcomes (Gull et al. 2024a). Thus, we investigate whether institutional cross-ownership-ESG decoupling relationship is moderated by board co-option. Two competing views are proposed to explain board co-option-ESG performance nexus. The first one argues that directors selected during the current CEO's tenure may be less likely to enforce strict oversight,

Table 10 Subsample analyses

Panel A: Controversial industry sectors		
	(1)	(2)
Variables	<i>Yes</i>	<i>No</i>
<i>CROSS</i>	-0.178 (-1.60)	-0.152*** (-2.72)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	482	3,456
<i>Within R</i> ²	0.564	0.557
Panel B: Board co-option		
	(1)	(2)
Variables	<i>High</i>	<i>Low</i>
<i>CROSS</i>	-0.169 (-2.25)	-0.232** (-2.90)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	1,346	1,467
<i>Within R</i> ²	0.552	0.529
Panel C: CEO career horizon		
	(1)	(2)
Variables	<i>Long</i>	<i>short</i>
<i>CROSS</i>	-0.061 (-0.99)	-0.210** (-2.30)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	1585	1449
<i>Within R</i> ²	0.554	0.487

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

given the CEO's role in their selection (Jiraporn and Lee 2018). Consistent with this view, empirical studies find that board co-option leads to lower ESG performance (Maneenop et al. 2024), suggesting more ESG decoupling. Conversely, another view suggests that co-opted directors help shield managers with career concerns from long-term projects that may take time to pay off, thus leading to better ESG performance (Gull et al. 2024a). Following Coles et al. (2014), we measure board co-option (*BCO-OP*) using the proportion of directors elected after the CEO takes office to total board size. Then, we split the sample into two subsamples based on the median value of *BCO-OP*. The influence of institutional cross-ownership on ESG decoupling is stronger in the subgroup with lower board co-option, as shown in Panel B of Table 10.

8.1.3 CEO career horizon

A major influence is wielded by CEOs as top decision-makers, such that corporate decisions are likely to be significantly shaped by their interests and personal traits (Cabreros et al. 2024). Empirical studies reveal that CEO characteristics largely influence a wide variety of firm choices (Byun et al., 2021). This study focusses on the CEO demographic characteristic of career horizon. CEO career horizons represent the time it takes for a CEO to reach retirement age (Cho and Kim 2017). We investigate whether CEO career horizon moderates institutional cross-ownership-ESG decoupling relationship. Stronger ESG performance is likely to be used as a strategic insurance tool by young CEOs to enhance their personal and professional reputation as corporate leaders. Conversely, as CEOs become older and reach later-career stages, their need to nurture their reputation might be reduced by lower career concerns, thus weakening additional ESG engagement (Cabreros et al. 2024) and suggesting more ESG decoupling. Therefore, we argue that institutional cross-ownership's negative influence on ESG decoupling will manifest more in firms with shorter CEO career horizon. We use a company's CEO age (*CEO AGE*) as a proxy for CEO career horizon, following Fabrizi et al. (2014). This is an inverse proxy because CEO career horizon decreases with age. Then, we split the sample into two subsamples based on the median value of *CEO AGE*. The influence of institutional cross-ownership on ESG decoupling is stronger in the subgroup with shorter CEO career horizon, as presented in Panel C of Table 10.

8.2 Additional analyses

Previous studies emphasize the importance of differentiating between short-term and long-term institutional investors (Oikonomou et al. 2020). Long-term institutional shareholders are strongly incentivized to monitor their companies, as their long-term ownership enables them to reap the benefits from their monitoring efforts (Kim et al. 2019b). Further, not only are ESG performance and disclosure viewed by investors with long-term orientation in terms of costs, but also as a potential long-term value driver. In contrast, investors' short-termism induces managers' short-termism, which may exacerbate managerial opportunism and discourage agendas that enhance long-run value maximization (Aluchna et al. 2022). Consistent with these views, empirical studies provide evidence that long-term (short-term) institutional investors enhance (diminish) financial reporting quality (Lin 2016) and promote (discourage) long-term investments, such as innovation (Kim et al. 2019c) and CSR (Kim et al. 2019a). Thus, we hypothesize that institutional cross-ownership's negative

impact on ESG decoupling will come mainly from long-term institutional cross-owners. To empirically test this conjecture, we define an institutional cross-owner as long-term (short-term) if it is classified by Bushee (2001) as quasi-indexer or dedicated (transient) (Flammer et al. 2021). We then divide institutional cross-ownership into two groups according to investment horizon: long-term (*long-term CROSS*) and short-term (*short-term CROSS*) and re-estimate our baseline regression model. As expected, the institutional cross-ownership-ESG decoupling relationship is driven mainly by long-term institutional cross-owners, as presented in Table 11.

8.3 Channel analyses

8.3.1 Monitoring channel

Our hypothesis suggests that institutional cross-ownership constrains ESG decoupling through the monitoring channel. Through information transmission and experience accumulation within the same industry, institutional investors with multiple block holdings are provided with rich information and monitoring experience, thereby improving the monitoring capabilities of institutional cross-owners (Ramalingegowda et al. 2021). We predict that if a monitoring role is played by institutional cross-ownership, then this role will manifest more in firms with high agency costs. To test this prediction, we use the ratio of annual sales to total assets as a proxy for agency costs (*AGENCY*), following Xu et al. (2024). This is an inverse proxy since firms experiencing greater agency conflicts tend to exhibit lower asset turnover ratios compared to those with fewer agency issues. Then, we split the sample firms into two groups based on the median value of *AGENCY*. The influence of institutional cross-ownership on ESG decoupling is stronger in the subgroup with higher agency costs, as presented in Panel A of Table 12.

8.3.2 Financing advantages channel

We predict that institutional cross-ownership negatively affects ESG decoupling through the financing advantages channel. Financial constraints are perceived to be a significant barrier to company development, with potentially adverse consequences on CSR (Liu et al. 2024). Sun and Gunia (2018) argue that firms' ESG policies are conditioned on the availability of economic resources. When faced with financial constraints, companies tend to prioritize

Table 11 Institutional cross-owner investment horizon and ESG decoupling

Variables	GAP
<i>Long-term CROSS</i>	-0.239* (-1.65)
<i>Short-term CROSS</i>	0.007 (0.04)
<i>Firm Controls</i>	Yes
<i>Fixed effects</i>	Firm, Year
<i>Obs.</i>	3,906
<i>Within R²</i>	0.534

***, ** and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

Table 12 Channel analyses

Panel A: Agency costs		
	(1)	(2)
Variables	<i>High</i>	<i>Low</i>
<i>CROSS</i>	-0.151*** (-2.64)	-0.067 (-0.87)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	1,467	1,554
<i>Within R</i> ²	0.589	0.656
Panel B: Financial constraints		
	(1)	(2)
Variables	<i>High</i>	<i>Low</i>
<i>CROSS</i>	-0.213** (-3.05)	-0.163 (-2.25)
<i>Firm Controls</i>	Yes	Yes
<i>Fixed effects</i>	Firm, Year	Firm, Year
<i>Obs.</i>	1,872	1,738
<i>Within R</i> ²	0.453	0.638

***, **, and * indicate significance at 10%, 5%, and 1% levels, respectively. T-statistics are given in parenthesis

first-best levels of (fixed/capital) investments. Thus, ESG investments can be limited by financial constraints since they are not core to the company. Further, ESG investments’ benefits are uncertain and unlikely to materialize in the short run (Attig 2024). In line with this notion, Leong and Yang (2021) find a company’s overall ESG performance is lowered by financial constraints, suggesting more ESG decoupling practices. Empirical research suggests that institutional cross-ownership enhances firms’ ability to finance investment opportunities (Chen et al. 2021) and contributes to a reduction in their cost of capital (Ni and Yin 2023). Thus, portfolio firms’ financial constraints are expected to be eased by institutional cross-ownership. Companies may think about investing in ESG after their restrictions are relaxed due to their long-term advantages (Attig 2024), thus decreasing ESG decoupling. To test this prediction, we use KZ Index (*KZ Index*) as a proxy for financial constraints, following (Farre-Mensa and Ljungqvist 2016). Then, we split the sample into two subsamples based on the median value of *KZ Index*. The influence of institutional cross-ownership on ESG decoupling is stronger in the subgroup with higher financial constraints, as shown in Panel B of Table 12.

9 Conclusion

Institutional cross-ownership’s prevalence in the capital market is on the rise. Thus, the emergence of this type of ownership as a particularly controversial issue for both regulators and academics is not surprising (Chen et al. 2023). We investigate whether institutional cross-ownership influences firms’ decisions to engage in ESG decoupling. Consistent with institutional cross-owners being more incentivized and capable of constraining opportunistic ESG decoupling, we document that lower ESG decoupling is exhibited by same-industry peers when sharing more institutional cross-owners. Additional analyses on institutional

cross-owner characteristics reveal that our findings are driven mainly by institutional cross-owners with long-term investment horizons. Besides, subsample analyses reveal that the negative impact manifests more in companies with lower board co-option, shorter CEO career horizon, and those that are non-controversial. Furthermore, we document that both the monitoring and financing advantages channels explain institutional cross-ownership's negative influence on ESG decoupling. The baseline results are robust to a battery of robustness checks and endogeneity tests. Collectively, our findings support the notion that ESG decoupling is lessened by institutional cross-ownership. This paper makes the following contributions. First, it enriches the literature on institutional ownership and ESG. Existing research has demonstrated how various types of investors influence a firm's ESG practices, but the results are inconsistent; some investors encourage firms to adopt socially responsible strategies, while others do not (DesJardine et al. 2023). We advance this stream of the literature by documenting that institutional cross-ownership—which is a related but distinct concept—negatively influences ESG decoupling. Second, it adds to the limited empirical evidence on antecedents of ESG decoupling. Previous studies in this area explore the role of internal corporate governance mechanisms (Gull et al. 2023a, c, 2024b), CEO characteristics (Gull et al. 2023b; Sauerwald and Su 2019), institutional factors (Aboud et al., 2023; Eliwa et al. 2023), and external monitoring factors (Zhang 2022; García-Sánchez et al. 2022) in shaping ESG decoupling. Our paper enriches this emerging research by establishing that institutional cross-owners, increasingly important market participants, constrain ESG decoupling. Third, it deepens our understanding of institutional cross-ownership's economic consequences. Extant studies largely focus on institutional cross-ownership's impact on corporate operations and shareholders (He and Huang 2017; Brooks et al. 2018; He et al. 2019; Ramalingegowda et al. 2021; Park et al. 2019; Peng et al. 2023; Cheng et al. 2024). More related to our study, there has been a thin but burgeoning literature examining institutional cross-ownership-ESG nexus, with contrasting results (Cheng et al. 2022; Choi et al. 2024; DesJardine et al. 2023; Qiang et al. 2024). We extend this literature by shedding light on a different ethical dilemma related to whether companies with higher institutional cross-ownership tend to engage less in the manipulative behaviour of decoupling their actual ESG performance from their ESG disclosure. To the best of our knowledge, this paper is the first to emphasize the curbing effect of institutional cross-ownership on ESG decoupling. Finally, on a practical level, we contribute to the debate pertaining to whether and how to restrict institutional cross-ownership. Based on evidence of institutional cross-ownership's anticompetitive effect, numerous proposals have been introduced to place restrictions on institutional cross-ownership (DesJardine et al. 2023). Nevertheless, before enforcing more restrictive policies, our research highlights the importance of considering institutional cross-ownership's economic implications overall.

Our study has some limitations that provide avenues for future research. First, we focus on S&P 500 companies; thus, the sample could be expanded to other research contexts. Second, we focus on a special type of institutional ownership, institutional cross-ownership; thus other types of institutional ownership could be examined. On the other hand, as literature on determinants of ESG decoupling is still limited, future research could investigate other determinants such as CEO tournament incentives and CEO political ideology.

Appendix A. Sample distribution

Panel A: Sample distribution by industry

	<i>N</i>	%
Agriculture, mining, and construction	273	6.9
Manufacturing	1509	38.15
Transportation, communications, electric, gas, and sanitary services	523	13.21
Wholesale and retail trade	355	8.97
Services	773	19.53
Finance, insurance, and real estate	494	12.48
Public administration	28	0.72
	3955	100

Panel B: Sample distribution by year

	<i>N</i>	%
2010	239	6.05
2011	241	6.09
2012	254	6.43
2013	257	6.50
2014	264	6.68
2015	273	6.90
2016	291	7.37
2017	343	8.66
2018	354	8.95
2019	360	9.09
2020	361	9.13
2021	360	9.09
2022	358	9.05
	3955	100

Appendix B. Definition of variables

Variables	Measurement	Source
Dependent variable		
<i>GAP</i>	Gap between Bloomberg’s current ESG disclosure score and Refinitiv EIKON’s 1-year lagged ESG performance score deflated by the logged total assets	Bloomberg, Refinitiv EIKON
Independent variable		
<i>CROSS</i>	Total number of a company’s institutional cross-owners	Thompson Reuters 13 F
Control variables		
<i>SIZE</i>	Natural logarithm of total assets	Compustat
<i>LEV</i>	Long-term debt divided by total assets	Compustat
<i>ROA</i>	Net profit divided by total assets	Compustat
<i>MTB</i>	Market value of common equity divided by book value of common equity	Compustat

Variables	Measurement	Source
Dependent variable		
<i>CAPEX</i>	Ratio of capital expenditures to total assets	Compustat
<i>CI</i>	Ratio of total assets to sales	Compustat
<i>R&D</i>	Ratio of research and development expenditures to total assets	Compustat
<i>BS</i>	Number of board members	Bloomberg
<i>BM</i>	Number of annual board meetings	Bloomberg
<i>BIND</i>	Percentage of independent members in board of directors	Bloomberg
<i>DUAL</i>	Dummy variable that equals one if the CEO is also the chairman of the board, and zero otherwise	Bloomberg
<i>CSR COM</i>	Dummy variable that equals one if a firm has CSR committee, and zero otherwise	Bloomberg
<i>BGD</i>	Percentage of women in board	Bloomberg
<i>INST</i>	Ratio of a firm outstanding shares owned by institutional investors	Thompson Reuters 13 F
Additional controls		
<i>CEO GENDER</i>	Dummy variable that takes value 1 if the CEO is female, and zero otherwise	Execucomp
<i>ESG PAY</i>	Dummy variable that takes value 1 if the company incorporates any ESG criterion in top executive compensation contracts, and zero otherwise	Bloomberg
<i>NON_CROSS</i>	Total number of a company's institutional non-cross owners	Thompson Reuters 13 F
<i>INSIDER</i>	Percentage of shares held by CEO and executive directors	Bloomberg
<i>LAG_GAP</i>	Lagged value of <i>GAP</i>	Bloomberg, Refinitiv EIKON
Alternative measures of key variables		
<i>TOTAL_CROSS</i>	Percentage of shares owned by institutional cross-owners	Thompson Reuters 13 F
Instrumental variable		
<i>COUNTY_CROSS</i>	County-year median of institutional cross-ownership	Thompson Reuters 13 F
Moderator variables		
<i>CONTRO</i>	Dummy variable that takes value 1 for controversial firms as defined by Wang et al. (2024), and zero otherwise	Compustat
<i>CEO AGE</i>	CEO's age	Execucomp
<i>BCO-OP</i>	Proportion of directors elected after the CEO takes office to total board size	Coles et al. (2014)
Institutional cross-owner characteristic variables		
<i>Long-term CROSS</i>	Institutional cross-ownership with long-term investment horizons, following the definition of Flammer et al. (2021)	Thompson Reuters 13 F, Bushee (2001)
<i>Short-term CROSS</i>	Institutional cross-ownership with short-term investment horizons, following the definition of Flammer et al. (2021)	Thompson Reuters 13 F, Bushee (2001)
Possible channel variables		

Variables	Measurement	Source
Dependent variable		
<i>KZ Index</i>	$-1.001909[(ib + dp)/lagged\ ppent] + 0.2826389[(at + prcc_f \times cs\ ho - ceq - txdb)/at] + 3.139193[(dltt + dlc)/(dltt + dlc + seq)] - 3.93678[(dvc + dvp)/lagged\ ppent] - 1.314759[che/lagged\ ppent]$, where all variables in italics are Compustat data items.	Compustat
<i>AGENCY</i>	Ratio of annual sales to total assets	Compustat

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Declarations

Ethical Approval This study did not involve human participants or animals; therefore, ethical approval was not required.

Informed Consent Informed consent was not applicable for this study.

Conflicts of interest The authors declare no conflicts of interest.

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